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Message Text

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42
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66604
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APPROVED BY S/S-O:KKURZE
---------- 103103
R 271836Z DEC 73
FM SECSTATE WASHDC
TO USINT CAIRO

S E C R E T STATE 250751

EXDIS

FOLLOWING SENT SECSTATE WASHDC INFO ALGIERS ABU DHABI BONN BEIRUT BRUSSELS CARACAS COPENHAGEN DHAHRAN JAKARTA KUWAIT LAGOS LONDON OTTAWA NEW DELHI PARIS OECD PARIS ROME TEL AVIV ISLAMABAD BRASILIA TEHRAN TOKYO TRIPOLI VIENNA FROM JIDDA 27 DEC 73:

QUOTE S E C R E T JIDDA 5715

EXDIS

DEPT PASS CAIRO

KUWAIT PASS DOHA

E.O. 11652: GDS
TAGS: ENRG, SA
SUBJ: POSSIBILITY OF DECREASE IN OIL PRICES

1. SUMMARY: YAMANI UNDERSTANDS EFFECTS RECENT PRICE INCREASES WILL HAVE ON WORLD ECONOMY; SAYS PRICE IN-CREASES WERE FORCED ON OPEC BY THE SHAH; REPORTS KING FAISAL'S ANGER AT MAGNITUDE OF INCREASE; TELLS AMBASSADOR THAT SAUDI ARABIA WOULD SUPPORT PRICE REDUCTION OF
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$1.00-$1.50/BBL. AND SAYS OPEC WOULD FOLLOW SAUDI LEAD PROVIDED SUG (OR OTHERS) CAN CONVINCE SHAH TO GO ALONG. END SUMMARY.

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2. I HAD A SECOND LONG CONVERSATION WITH YAMANI LATE YESTERDAY EVENING (DEC 26) AT HIS REQUEST. I GAVE HIM A LARGE SELECTION OF EUROPEAN AND AMERICAN NEWSPAPER CLIPPINGS ABOUT HIS TRAVELS AND RECENT OPEC "TRIUMPHS." I TOLD HIM MY FAVORITE ARTICLE WAS ONE FROM THE MANCHESTER GUARDIAN OF NOV 29 WHICH DESCRIBED HIM AS THE MOST MENACING EASTERN EMISSARY TO ARRIVE IN EUROPE SINCE GENGHIS KHAN. YAMANI WAS ONLY BARELY AMUSED.

3. I ALSO GAVE A PARTICULARLY GORY ACCOUNT OF THE EFFECT THE OPEC PRICE INCREASES WILL HAVE ON THE ECONOMY OF THE WORLD IN GENERAL AND THE DISASTER THAT IT WILL BRING TO INDIA, PAKISTAN, BRAZIL, DENMARK AND OTHERS, MANY OF WHOM ARE FRIENDLY TO THE ARABS. I DID THIS WITH SOME IMAGINATION AND WITH CONSIDERABLE EXTRA-POLATION AS I DO NOT YET HAVE MUCH SPECIFIC INFORMATION. ANY DETAILS THE DEPARTMENT OR THE ADDRESSEE POSTS COULD SEND US WOULD BE GREATLY APPRECIATED.

4. THE UNITED STATES WON'T LIKE THE INCREASE ANY MORE THAN ANYONE ELSE, I SAID, BUT AT LEAST IT WILL GIVE STRONG IMPETUS TO THE DEVELOPMENT OF ALTERNATIVE FUELS, (I WILL SEND YAMANI THE COPY OF BILL SIMON'S STATEMENTS ON THE SUBJECT WHICH APPEARED IN THIS MORNING'S WIRELESS BULLETIN).

5. IF THE ARABS LOST FRIENDS BY THEIR BOYCOTT, THE PRICE INCREASE HAS TURNED THEM INTO THE WORLD'S PRIMARY OGRE. THEY MAY ENJOY THE TEMPORARY "FRIENDSHIP" OF EUROPEAN COUNTRIES AND JAPAN, WON BY RAISING OIL PRODUCTION FOR ALL THE WORLD EXCEPT THE UNITED STATES. BUT THIS FRIENDSHIP WILL PROVE TO BE AN EPHEMERAL THING AND WILL EVAPORATE IN THE HOT SUN OF CONSUMER ATTEMPTS TO GET MONEY TO PAY FOR THEIR OIL IMPORTS.

6. YAMANI BRISTLED AND ASKED IF I HADN'T HEARD WHAT HE HAD TOLD ME THAT MORNING; THAT HE HAD TRIED TO KEEP
SECRET

PRICES LOW; IT WAS THE SHAH WHO HAD INSISTED ON HIGHER PRICES. I TOLD HIM THAT OF COURSE I HAD HEARD AND BELIEVED HIM BUT IN THE EYES OF THE WORLD, LIKE IT OR NOT, OIL EQUALED ARABS. IRANIANS, VENEZUELANS AND ALL OTHER PRODUCING COUNTRIES FIGURED ONLY MARGINALLY INTO THIS EQUATION.

7. HE THEN PROCEEDED TO GIVE ME A FULL ACCOUNT OF THE OPEC MEETING. HE SAID HE HAD GONE TO TEHRAN WITH IN-STRUCTIONS TO BE MODERATE AND HE WAS. INITIALLY HE PROPOSED RAISING TAXES AND ROYALTIES ON ARABIAN LIGHT CRUDE TO $4.25 FROM THE APPROXIMATE $3.05 AT PRESENT. (N.B.: ARABIAN LIGHT CRUDE IS RELATIVELY LOW SULPHUR,

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34 DEGREES API AND SERVES AS THE STANDARD PERSIAN GULF CRUDE. OTHER CRUDES WITH DIFFERENT GRAVITIES AND SULPHUR CONTENTS ARE RATED AGAINST IT. THE PRICES THROUGHOUT THIS MESSAGE ARE TAXES AND ROYALTIES, NOT POSTED PRICES OR TAX-PAID COSTS. THE SHAH WILL PROBABLY SUCCEED IN ABOLISHING THE POSTED PRICE SYSTEM, AS INDEED HE SHOULD. IT IS AN ANACHRONISM THAT ONLY CONFUSES THE PUBLIC.)

8. THE SHAH, VIGOROUSLY SUPPORTED BY KUWAIT, DEMANDED THAT TAXES BE RAISED TO $8.50. QATAR WOULD PROBABL* HAVE GONE ALONG WITH THE MILDER SAUDI POSITION BUT MOST OTHERS SUPPORTED IRAN. "ABU DHABI," YAMANI SAID, "ALWAYS WANTS MORE MONEY* LIBYA GOES ITS WON WAY AND WILL RAISE PRICES NO MATTER WHAT IS DONE; INDONESIA, AS USUAL, SAID NOTHING AND IS CONTENT TO PICK UP THE ADVANTAGES WON BY OTHERS. NIGERIA AID NOTHING BUT VOTED FOR THE IRANIAN POSITION AND VENEZUELA WAS REPRESENTED BY ITS AMBASSADOR TO IRAN, A NITWIT, WHO SUCCEEDED IN ANTAGONIZING THE SHAH EVEN WHILE FAWNING ON HIM - A RARE TALENT. STRANGELY ENOUGH, IRAQ MIGHT HAVE SUPPORTED ME - NOT BECAUSE THEY DON'T WANT MORE MONEY OR BECAUSE THEY HAVE DEVELOPED A LOVE FOR SAUDI ARABIA BUT BECAUSE THEY HATE IRAN MORE."

9. YAMANI SAID HE MAINTAINED A FIRM POSITION AGAINST THE HIGHER PRICE UNTIL THE IRANIANS REDUCED THEIR
SECRET

DEMAND TO $7.00, AND AMOUZEGAR RETURNED TO THE MEETING WITH A PERSONAL MESSAGE FROM THE SHAH. THE SHAH SAID THAT IF YAMANI WERE WORRYING ABOUT THE CONSUMERS HE SHOULD STOP. THE $7.00 TAX WOULD TRANS-LATE INTO A DELIVERED PRICE OF AROUND $8.50/BARREL WHICH WAS THE COST OF ALTERNATIVE ENERGY TO THE U.S. AND EUROPE. THIS NEW TAX HAD BEEN DISCUSSED WITH THE UNITED STATES, GREAT BRITAIN AND OTHER MAJOR CONSUMERS, THE SHAH SAID, AND THEY UNDERSTOOD THE IRANIAN RATIONALE AND APPROVED IT.

10. I SAID SOMEONE HAD ROCKS IN HIS HEAD. $8.50 MAY BE THE COST OF ALTERNATIVE FUEL AND IT MAY ULTIMATELY SERVE AS THE UPPER RPT UPPER LIMIT ON PETROLEUM PRICES BUT NO ONE COULD POSSIBLY APPROVE SUCH AN INCREASE TODAY. THERE WERE INDEED NUMEROUS STATEMENTS FROM THE UNITED STATES ON WHAT WE COULD DO IN EVENTUALLY DEVELOPING OTHER ENERGY SOURCES BUT IN THE SHORT RUN - I.E. THE NEXT TEN YEARS - WE WILL HAVE DIFFICULTY IN FINDING THE MONEY TO PAY FOR OUR IMPORTED OIL. AND THE ALLEGATION THAT BRITIAN IN ITS PRESENT STATE UNDERSTOOD, MUST LESS APPROVED,

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SUCH A DRASTIC INCREASE IN OIL PRICES WAS ABSURD;
I WOULD HAVE THOUGHT AMOUZEGAR WOULD HAVE MORE
SHAME THAN TO MAKE SUCH A STATEMENT. AS FAR AS
I COULD TELL THE REACTION OF ALL MAJOR CONSUMERS HAS
BEEN ONE OF PURE HORROR, NOT OF CALM "UNDERSTANDING."

11. YAMANI REPLIED THAT AT THAT POINT HE CALLED
JIDDA FOR INSTRUCTIONS. HE WAS ONLY ABLE TO REACH
PRINCE FAHD, MINISTER OF INTERIOR, WHO TOLD HIM HE
SHOULDN'T RISK ANTAGONIZING THE SHAH.

12. ON HIS RETURN TO JIDDA, YAMANI SAID HE WAS GIVEN
A ROYAL DRESSING DOWN BY THE KING (WE HAVE THIS FROM
OTHER SOURCES), WHO SAID HE WAS WRONG TO TAKE FAHD'S
ADVICE; HE SHOULD HAVE INSISTED ON TALKING WITH THE
KING HIMSELF, AND HE WOULD HAVE ORDERED HIM TO STICK
WITH THE LOWER PRICE.
YAMANI COMMENTED TO ME THAT
THIS WOULD HAVE BEEN DIFFICULT; IF THE REST OF OPEC
SECRET

HAD RAISED PRICES AND ONLY SAUDI ARABIA HAD HELD THEM
LOW, SAUDI OIL WOULD STILL HAVE BEEN SOLD AT THE WORLD
PRICE AND THE OIL COMPANIES, RATHER THAN THE SAUDI
GOVERNMENT, WOULD HAVE TAKEN THE DIFFERENCE.

13. I SAID ALL OF THIS MADE ME VERY GLUM. IT
WAS CERTAINLY TOO BAD THAT HE DIDN'T GET THROUGH
TO THE KING (AND THIS WAS YET ANOTHER REASON WHY
SAUDI ARABIS SHOULD GET AN AMERICAN TELEPHONE NET-
WORK INSTALLED). BUT WHAT DID SAUDI ARABIA INTEND
TO DO NOW? WAS IT JUST GOING TO SIT BACK AND WATCH
THE WORLD'S ECONOMY COLLAPSE? I SAID I DIDN'T ENVY
HIM HIS RESPONSIBILITY; AND MAYBE THE WORLD WOULD BE
BETTER OFF WITH GUNGHIS KHAN, AFTER ALL.

14. YAMANI THEN SUGGESTED THAT THE ONLY THING TO DO
SEEMED TO BE TO LOWER PRICES. OPEC COULD BE RECONVENED,
HE SAID, IT COULD ANNNOUNCE THAT IT HAD MISCALCULATED
THE EFFECT THE HIGHER PRICE WOULD HAVE ON THE WORLD'S
ECONOMY; AND THE PRICES WOULD HENCEFORTH BE LOWERED
(HE THOUGHT A REDUCTION IN THE TAX FIGURES BY $1.00-
$1.50; I.E. TO $5.50-$6.00 ("OR MAYBE LOWER") WOULD BE
ACC PTABLE TO ALL OPEC EXCEPT IRAN. HE ADDED THAT
IT*IS ESSENTIAL FIRST TO PERSUADE HE SHAH TO CHANGE HIS
POSITION. IF THE SHAH, "THE WEST'S BEST FRIEND I *THE
MID LE EAST," MAINTAINS THAT THE HIGHER PRICE IS BOTH
FAIR AND ACCEPTABLE TO THE CONSUMERS, THE USG COULDN'T
EXPECT HIM (YAMANI) TO SWAY ANY OF THE WAVERERS.

15. YAMANI SAID SAUDI ARABIA WOULD ASK FOR AN
EMERGENCY MEETING OF OPEC TO RECONSIDER TAXES AS

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SOON AS I COULD TELL HIM THE USG OR OTHER CONSUMERS
HAD PERSUADED THE SHAH TO BACK DOWN. HE SUGGESTED
THAT WE AND THE BRITISH TELL THE IRANIANS THAT WE
WERE SHOCKED TO HEAR REPORTS THAT WE HAD "APPROVED"
THE PRICE INCREASES; THAT THERE MUST HAVE BEEN SOME
SERIOUS MISUNDERSTANDING. IN SHORT, HE SAID, "GIVE THE
SHAH THE SAME TREATMENT YOU'VE GIVEN ME."

16. COMMENT AND SUGGESTED ACTION: IN RECAPITULATING
THE EVENING'S CONVERSATION I ASKED YAMANI IF THERE
SECRET

WEREN'T SOME POSSIBILITY THAT THERE HAD BEEN AN HONEST
MISUNDERSTANDING IN TEHRAN ABOUT THE ACCEPTABILITY OF
THE PRICE INCREASE TO CONSUMERS. HE RECONSIDERED
AND SAID THAT AMOUZEGAR'S PHRASING MIGHT HAVE CONTAINED
SOME DELIBERATE AMBIGUITIES, BUT THE IMPRESSION OF THE
CONFERENCE WAS CLEARLY THAT THE U.S., BRITAIN AND OTHERS
HAD BEEN CONSULTED BY THE SHAH AND HAD GIVEN THEIR
APPROVAL. YAMANI SAID THAT HE WOULD HAVE NO OBJECTION
WHATSOEVER IN BEING QUOTED TO THE IRANIANS ON THIS OR
ON ANYTHING ELSE HE HAD TOLD ME ABOUT THE OPEC MEETING;
AND HE WOULD BE INTERESTED IN LEARNING WHAT THE IRANIANS
WOULD TELL OUR AMBASSADOR HE HAD SAID.

17. WE CAN'T WASTE MUCH TIME IF WE ARE TO DECIDE
TO PUT PRESSURE ON THE SHAH. THE SHOCK IN THE
CONSUMER COUNTRIES IS LIKELY TO TURN INTO NUMBED
PARALYSIS AT THE SAME TIME THE PRODUCERS ARE FREEZING
THEIR CALCULATIONS ON WHAT THEY WILL DO WITH THEIR
NEWLY ANTICIPATED WEALTH.

18. THE LAST MINUTE SERIES OF DEMARCHES THE CONSUMERS
MADE TO THE OPEC COUNTRIES MAY HAVE SAVED US FROM
THE SHAH'S PROPOSED $8.50 TAX ON OIL, BUT $7.00 IS
STILL BAD. I WOULD HOPE THAT THE U.S. COULD NOW PUSH
STRONGLY FOR JOINT CONSUMER ACTION AND CONSUMER/PRODUCER
CONTACTS. THE SECRETARY HAS RAISED THE MATTER ALREADY.
EUROPE'S AND JAPAN'S REACTION WAS LUKEWARM BUT THEIR
INTEREST SHOULD HAVE BEEN HEATED UP CONSIDERABLY BY
THE RECENT PRICE INCREASES. WE SHOULD, I BELIEVE, NOW
CONSIDER AN OPEC-OECD OR AN OPEC-MAJOR CONSUMER CONFERENCE
ON PRICING WHERE WE MIGHT EVEN BE ABLE TO ACCEPT THE
ALTERNATIVE ENERGY COST" CONCEPT FOR 1980. WE MIGHT ALSO
WORK OUT A SCALED INCREASE IN PRICES FOR THE NEXT FEW YEARS
UNTIL THAT POINT IS REACHED, BUT THE MOST IMPORTANT CONCERN
NOW WOULD BE TO GET OPEC BACKED OFF ITS CURRENT
DEMANDS. THE MEETING COULD ALSO SET THE STAGE
FOR SUBSEQUENT CONSUMER-PRODUCER COOPERATION ON
MONETARY MATTERS, INVESTMENTS AND INDUSTRIALIZATION.

18. UNLESS EUROPE AND JAPAN ARE SHOWING MUCH MORE

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RESOLUTION THAN THEY DID WHEN I ATTENDED THE OECD
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MEETINGS, THE U.S. WILL HAVE TO TAKE THE LEAD IN CALLING FOR AND ORGANIZING SUCH A MEETING OR ANY OTHER CONSUMER ACTION. NO ONE ELSE IS WILLING OR CAPABLE OF LEADERSHIP. AKINS UNQUOTE KISSINGER

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